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in part the result of a difference in expectations. Government expenditures and expenditures for producer durables and construction all increased more rapidly in percentage terms between the second quarter of 1940 and the first quarter of 1941 than in the corresponding period of 1950–1951, even before correction for price changes. It is of course true that a large volume of unutilized resources existed in 1940, so that defense and related expenditures could be increased without pressing seriously on the volume of resources available for the production of consumer goods. On the other hand, the boomlet of 1939 proves that underemployment is no guarantee against short-period inflation promoted by active inventory speculation. In fact, had consumers acted in 1939 as they did in 1950, the boomlet would probably have carried higher and lasted longer, despite the fact that no defense mobilization was undertaken at that time. Furthermore, the preceding discussion has made it clear that resources *were* available for the production of civilian goods in 1950. The violent rise in prices in 1950 must be attributed to the inventory speculation of consumers and businessmen rather than to government competition for resources.

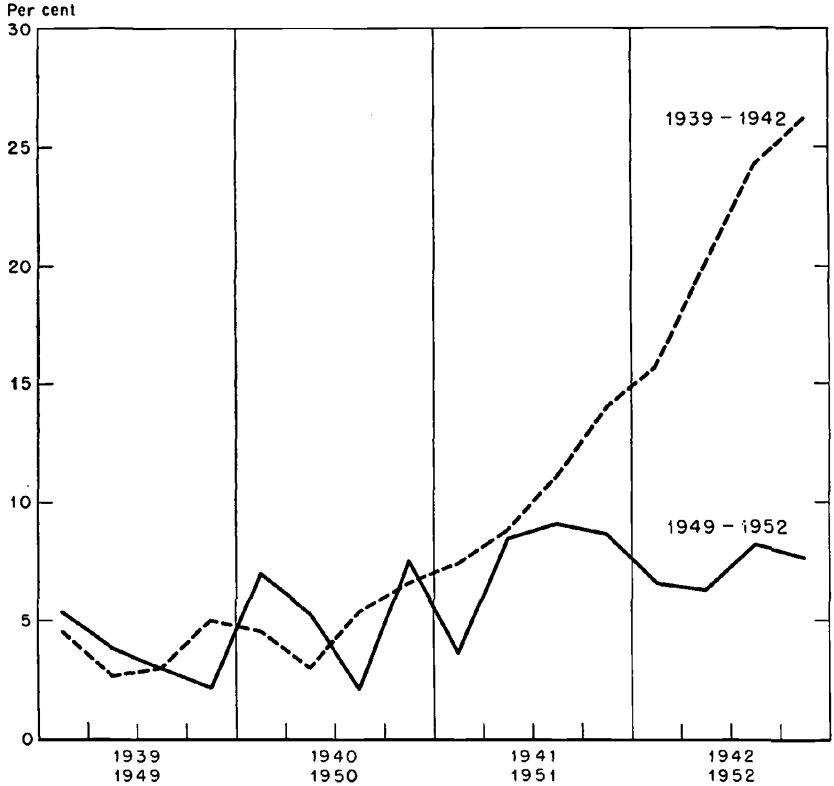
## The Role of Consumer Saving in 1941 and 1951

The lull in consumer spending which followed the second buying wave of the Korean period was reflected in a sharp rise in the ratio of personal saving to disposable income (Chart 20). During the inflationary phase of the expansion the saving ratio had fluctuated violently with each change of expectations, and it stood at a low level in early 1951 as a result of the heavy buying of January and February. The ratio then increased sharply in the second quarter and remained at a high level through the rest of the year, averaging 8.8 per cent in the last three quarters, as compared with 3.6 per cent in the first quarter.

In view of the important stabilizing role of personal saving in 1951, it is interesting to observe that the saving ratio was considerably higher in 1941 (Chart 20). The ratio rose steadily from the third quarter of 1940 to the fourth quarter of 1941. The successive

CHART 20

RATIO OF PERSONAL SAVING TO DISPOSABLE PERSONAL INCOME, QUARTERLY, 1939–1942 AND 1949–1952




Source: 1939-1942, *National Income Supplement, 1951, Survey of Current Business* 1949-1952, *Survey of Current Business*, July 1953. Ratios computed by author.

ratios for the four quarters of 1941 were 7.4, 8.8, 11.1, and 14.0. Thus consumers saved larger percentages of their incomes in every quarter of 1941 than in 1951, and yet in the earlier year inflationary pressures were strong and in the later year they were weak. These facts suggest that in interpreting the developments of 1941 and 1951, emphasis should be placed not on the amount of saving but rather on the circumstances under which saving increased in the two periods.

Disposable personal income rose rapidly in 1941, so that even though consumers saved much larger percentages of their incomes than in any prewar year covered by the data (Table 3), they increased their expenditures on consumer goods and services (Chart 21), and real purchases of consumer goods rose substantially

TABLE 3

RATIO OF PERSONAL SAVING TO DISPOSABLE PERSONAL INCOME, IN CURRENT PRICES, 1929–1952

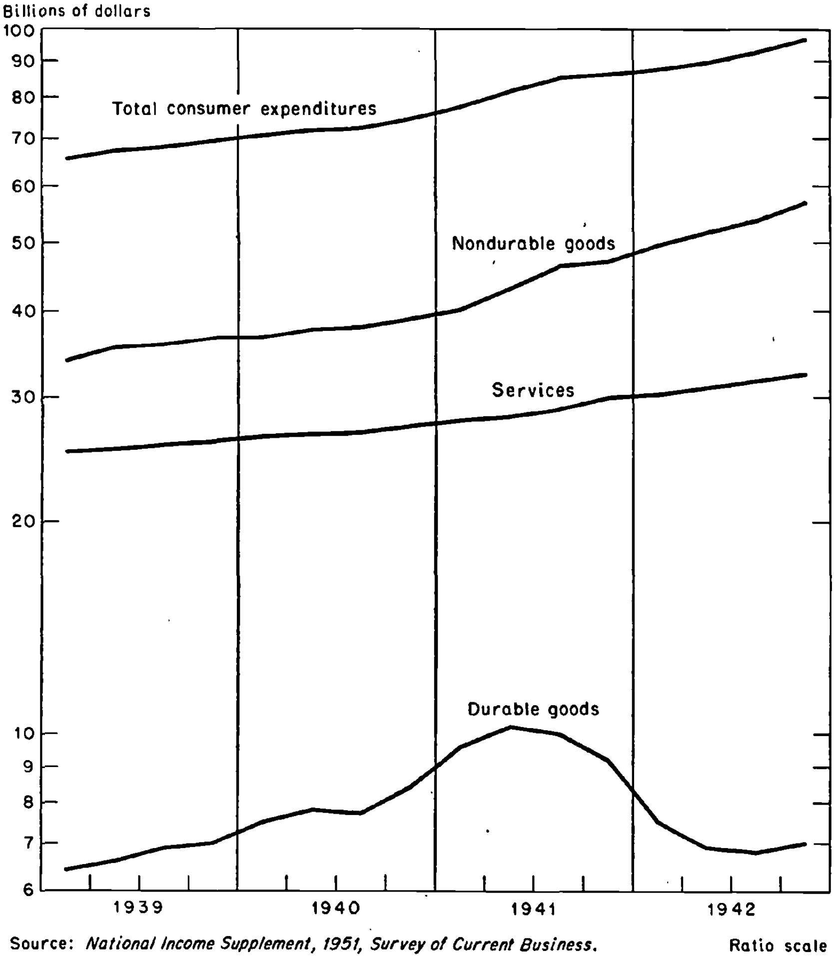
*(billions of dollars)*

| *Year* (1) | *Disposable Personal Income* (2) | *Personal Saving* (3) | *Saving Ratio (per cent) (3 ÷ 2)* (4) |
|---|---|---|---|
| 1929 | 82.5 | 3.7 | 4.5 |
| 1930 | 73.7 | 2.9 | 3.9 |
| 1931 | 63.0 | 1.8 | 2.9 |
| 1932 | 47.8 | −1.4 | −2.9 |
| 1933 | 45.2 | −1.2 | −2.7 |
| 1934 | 51.6 | −0.25 | −0.5 |
| 1935 | 58.0 | 1.8 | 3.1 |
| 1936 | 66.1 | 3.6 | 5.4 |
| 1937 | 71.1 | 3.9 | 5.5 |
| 1938 | 65.5 | 0.95 | 1.5 |
| 1939 | 70.2 | 2.7 | 3.8 |
| 1940 | 75.7 | 3.7 | 4.9 |
| 1941 | 92.0 | 9.8 | 10.7 |
| 1942 | 116.7 | 25.6 | 21.9 |
| 1943 | 132.4 | 30.2 | 22.8 |
| 1944 | 147.0 | 35.4 | 24.1 |
| 1945 | 151.1 | 28.0 | 18.5 |
| 1946 | 158.9 | 12.0 | 7.6 |
| 1947 | 169.5 | 3.9 | 2.3 |
| 1948 | 188.4 | 10.5 | 5.6 |
| 1949 | 187.2 | 6.7 | 3.6 |
| 1950 | 205.8 | 11.3 | 5.5 |
| 1951 | 225.0 | 16.9 | 7.5 |
| 1952 | 235.0 | 16.9 | 7.2 |

Source: *National Income Supplement, 1951, Survey of Current Business,* Table 3; *Survey of Current Business,* July 1953, Table 3.

CHART 21

CONSUMER EXPENDITURES BY TYPE, SEASONALLY ADJUSTED QUARTERLY TOTALS AT ANNUAL RATES, 1939–1942




Source: *National Income Supplement, 1951, Survey of Current Business.*

(Chart 11).[25] There was no softening of consumer demand comparable to that of 1951, although retail sales and expenditures on

[25] It takes time for consumers to adjust their expenditure habits to a change in income. If disposable income is rising slowly, the adjustment can be made with little difficulty, but if it is rising rapidly, the response of consumers will be delayed until *(Continued on page 50)*

consumer durable goods fell off somewhat near the end of the year.

In 1941, then, the rapid growth of income induced substantial increases in both consumption and saving. In 1951, on the other hand, the reaction from the second buying wave produced an absolute drop in consumer expenditures in the second quarter and rather modest increases in the third and fourth quarters (Chart 5). A more rapid growth of disposable income would in all probability have induced a greater growth of consumer expenditures, at least after the second quarter, since consumers could have more easily satisfied their desires to rebuild their holdings of liquid assets. As it was, consumers reduced their savings in both absolute and percentage terms in the fourth quarter of 1951 and more sharply in 1952 (Charts 10 and 20).

A sharp decline in inventory investment followed the increase in saving in 1951, because the increase in saving depressed consumption and had been preceded by a period of abnormal sales and expectations that had encouraged heavy buying by manufacturers and distributors. When retail sales declined, the resulting decline of inventory investment moderated the growth of income and expenditures and helped relieve the pressure on prices. Thus the increase in the rate of personal saving had the effect it had because it occurred when disposable income was not growing rapidly, and because it represented a sharp reversal of the previous trend.

In 1941, on the other hand, inventory investment was maintained at high rates throughout the year, in defense and nondefense sectors alike (Charts 16 and 18), but stock-sales ratios did not increase until the end of the year (Chart 17). The decline in retail sales in September [26] and October was reflected in a pronounced

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they have had time to become accustomed to the sudden increase in income. In general, one would expect that the greater the rate of growth of income, the more important would be the lag in consumption, and the larger the saving ratio. Table 3 reveals that the increase of disposable income in 1941 was much greater than in any preceding year covered by the data, and this would seem to account, in part at least, for the very large saving ratio of 1941.

[26] The decline was coincident with the imposition of consumer credit controls on September 1. There is no evidence that the decline was forced by a shortage of goods; retail inventories rose absolutely and relative to sales as sales declined (Charts 16 and

increase in the ratio of stocks to sales on all market levels in the last few months of the year, which suggests that the rise in inventory investment in the fourth quarter may have been unplanned. Perhaps a period of voluntary inventory disinvestment would have followed had the United States not entered the war in December.

## The Expansion of 1940–1941: Government Operations and Supply Bottlenecks

A federal deficit existed in 1940, but it was partially offset by a surplus on state and local government account.[27] The federal deficit grew more rapidly than the state and local surplus in 1941, so that the combined deficit increased sixfold. The quarterly figures (Table 4) demonstrate that the combined deficit did not become large until the last half, and particularly the last quarter, of 1941. Nonetheless, the growing deficit was adding to the inflationary pressure after the first quarter of the year, at the very time when prices began their rapid climb.

The mobilization effort of 1940–1941 would probably have promoted an increase in total spending even had federal expenditures been financed by noninflationary means. Part of the 25 per cent increase in real private investment during 1941 was the direct result of the mobilization program. Mobilization for war production required an expansion of industrial facilities, not only in the armament industries, but in basic industries as well; iron and steel, nonferrous metals, and machine tools were the most important. About half the fixed capital outlay in manufacturing in 1941 was in arms

17). The decline in sales may have been a reaction to forward buying by consumers, but there is no evidence of extensive forward buying; retail sales merely rose proportionally with personal income up to September.

27 The figures, in billions of dollars, are as follows:

| | *1939* | *1940* | *1941* | *1942* |
|---|---|---|---|---|
| Government deficit (+) or surplus (−) | +1.87 | +0.55 | +3.49 | +31.16 |
| Federal | +2.21 | +1.41 | +4.89 | +32.95 |
| State and local | −0.35 | −0.86 | −1.40 | −1.79 |

Source: *National Income Supplement, 1951, Survey of Current Business,* Table 5.